

Raphaël Esposito - Director, French Chamber of Commerce in Turkey



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Raphaël Esposito, director of the French Chamber of Commerce in Turkey, sheds light on issues ranging from venture partnerships to cultural specificities, while underlining Turkey's capacity to respond to the country's currency dilemma.

What is your view on the recent evolution of the economy?

Although readers may read of the situation in Turkey, it is often insightful to have an on-the-ground perspective, particularly of how the situation in Turkey has developed in recent years. I arrived in Turkey in September 2003, when the economic growth restarted, and as the country made baby-steps away from a severe financial crisis. Inflation rates sat at over 25 percent, and the GDP per capita was three times as small as today. The reasons why Turkey managed to escape this bleak outlook in 2003 are twofold: the prospect of entering the EU, and a new economic plan supported by the IMF. The economy has since completed transformed—and in spite of news reports, Turkey has now reached heights of prosperity hard to imagine in 2003.

How has the nature of investment changed over this time?

In the early 90s, a foreign investor had fewer rights than a local, Turkish investor. Predictably, foreign investment was lower, and entry into the country proved difficult without either a joint venture or contacts on the ground. This rule has since changed, and we now see little over 40,000 foreign investors and companies with interest in Turkey. Moreover, and perhaps as a linked consequence, we have seen an expanding middle class across Turkey—this is of particular interest to the healthcare sector. The number of patients frequenting public hospitals has rocketed, as more and more people believe in the quality of service and structure provided by not only the government but the healthcare sector in general. Crucially, however, Turkey has created an atmosphere of trust and reliability in healthcare and hospitals, which pre-2000 was rare.

Concerning investments in 2017 and 2018, we begin to observe ‘stagnation’ in the market, particularly when contrasting our economic growth with the levels seen leaving the 2000s. During this period, growth fluctuated between seven and ten percent; we now approach Eastern numbers—anything from three to five percent economic growth. For an emerging country showing all the positive signs: a swelling middle class, trust and reliability on the up, and an increase in foreign investment, we must still work to improve the situation. Turkey’s growth over the past two years has largely been a combination of internal consumption and public investments, plus foreign players mobilizing investments into Turkey. Sadly, the French, UK and the Western Nations view on Turkey has slid of late, especially in light of the coup d’état two years ago and political tensions. Indeed, the country’s image has deteriorated.

Why has Turkey’s image deteriorated?

The economy is still maintaining a steady course. However, over the past two/three years, confidence across the board has dropped, regardless of the sector; and when there is no confidence, there is little movement. The drop in confidence is compounded by the neighboring war in Syria, the resulting migrant crisis, and geopolitical tensions. Finally, the issues we see including inflation and serious currency problems add a further blow to foreign confidence in the country.

We have already seen the impact of this deterioration. There are no more big French investments. The devaluation of the Lira also provokes more and more debt from domestic businesses. Turkey imports 90 percent of its products and therefore is highly dependent on foreign imports, and many of these transactions are in foreign currencies. Given that Turkey’s Lira lost roughly 40 percent of its value since the beginning of the year, many companies now suffer, particularly those that rely on foreign imports of raw materials to construct their products, such as pharmaceutical

companies.

Turkey is sometimes referred to as ‘The China of Europe’ with regards to its manufacturing potential. What would you say to such claims?

I do not like the terminology describing Turkey as ‘The China of Europe,’ but sadly, this image still marks Turkey’s past. In reality, Turkey is more than a manufacturing hub; and crucially, Turkey is not cheap or low quality—it would be foolish to consider Turkey as the cheap factory of Europe when launching a business. Although salaries are lower, electricity is more expensive, and financing can be tricky; therefore, when foreign investors consider Turkey and eventually invest, they understand the scope for opportunity from this country.

Given that Turkey is an emerging country that relies heavily on foreign investment, we must ensure Turkey gets back on the rails; on a new path working toward lower rates of inflation, steadier economic growth, and allowing businesses to develop in the security that the currency will continue to hold its value. Since 2017, unfortunately, many companies have stagnated.

Where does the Chamber of Commerce fit into the landscape of Turkey?

The French Chamber, as with many Chambers worldwide, intends to help SMEs establish networks and create useful business connections across Turkey. Although we are on hand to assist the massive French corporations, our forte is small to medium-sized businesses, those beginning to expand their international presence.

What challenges do French SMEs face in Turkey?

Turkey’s status as an emerging company means many of the new regulations are yet to be written, and therefore we have to react, anticipate and predict the new rules that will come into place.

This anticipation pervades throughout Turkey and can create an atmosphere of ‘last-minute’ practices. We only have to consider the way in which salaries are calculated year on year in Turkey—it typically takes place as late as the 27th or 28th December. As a result, companies across Turkey have an equally last-minute job in understanding the impact of these changes on their budgets. Business has to anticipate and compensate for what they envisage will be the future change in the economy. Lobbying, discussion and having an uninterrupted view of the situation and how it will develop is challenging, and consequently, we must be reactive, dynamic and flexible.

What advice would you give to SMEs looking to enter Turkey?

If an enterprise would like to develop their international offering, leaving Turkey behind would be a monumental error. 85 percent of Turkey’s needs are imported in many sectors. Clearly, there is a

considerable demand from Turkey to attract foreign interest and international investment. Within healthcare, for example, we see ten percent growth year on year, and with the arrival of new city hospitals and new ventures popping up across Turkey, there is again opportunity. Vision 2023 and the government's initiatives will further serve to create a solid foundation for growth in Turkey. Furthermore, in exports, technology transfer and exploitation, we see good signs that Turkey will continue to grow.

How important is to understand the Turkish work ethic and culture before expanding a business to Turkey?

For an SME it is best to trust a team comprised of Turks and internationals to manage operations, as opposed to searching for joint ventures to establish a foothold in Turkey. Furthermore, it is essential that business be considered '100 percent Turkish' upon entry into the country. The new business must understand its own philosophy and how it will integrate successfully into the Turkish culture. The Turkish work nature can be slightly volatile and hard to predict; to counter this, a business must allow greater autonomy, and establish rapport with employees. Creating a trustworthy and faithful work environment to best promote the company in Turkey is vital. In essence, Turkey is a country where foreign investors must invest more than just money. As explained, relationships are important, and phone calls, for example, are more important than emails.

Finally, business administration including taxes, tariff issues, and fiscal procedures are easier on the ground as opposed to remotely. To make matters more accessible, there are already local companies that can better facilitate entry into Turkey concerning these administrative actions.

Will Turkey become a high-income economy in the next ten to 15 years?

I have enormous confidence in the Turks rebounding from the troubling times we see currently. Turkey will become a more impressive economy. I have already seen Turkey survive one crisis, and believe they can continue growing with their resilience and ability to reinvent. I highlight the metaphor of the person who is already running along, who approaches the wall at full speed, hits the wall hard and falls, but quickly gets up without complaint to realize that he can step around the wall to continue running.

My way of life in Turkey has not been affected in fifteen years of living in Turkey, and in many ways continues to progress. I am confident that the country will continue to develop external to outside actions.

Ultimately, however, inflation cannot continue, the devaluation of the currency cannot fall further because we so depend on outside interest and investment. Turkey must continue its slow

accession into Europe, and with strong government initiatives and with good continuous dialogue, we will overcome this period of stagnation.

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